

POCAHONTAS COMMUNITY HOSPITAL

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

YEARS ENDED JUNE 30, 2020 AND 2019

POCAHONTAS COMMUNITY HOSPITAL

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POCAHONTAS COMMUNITY HOSPITAL
Officials
June 30, 2020

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
CITY COUNCIL		
Richard Gruber	Mayor	January, 2024
Brian Stover	Member	January, 2024
John DeWall	Member	January, 2022
Jada Hallberg	Member	January, 2022
Tom Ries	Member	January, 2022
Wes Beneke	Member	January, 2024
Jeffrey A. Johnson	City Treasurer	Appointed Annually

HOSPITAL BOARD OF TRUSTEES

Rick Winegarden	President	December, 2023
Gregg White	Vice-President	December, 2021
Jody Lyon	Secretary-Treasurer	December, 2021
Don Beneke	Member	December, 2023
Kim Wood	Member	December, 2023

HOSPITAL OFFICIALS

James Roetman	Chief Executive Officer
Lynne Raveling	Chief Financial Officer
Susie Aden	Director of Patient Care
Jenny Benna	Director of Outpatient Services

Gronewold, Bell, Kyhnn & Co. P.C.

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KENNETH P. TEGELS
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DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pocahontas Community Hospital
Pocahontas, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Pocahontas Community Hospital which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Pocahontas Community Hospital

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pocahontas Community Hospital as of June 30, 2020 and 2019, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note O, the Hospital may be adversely affected by the global Novel Coronavirus (COVID-19) pandemic. The Hospital cannot at this time reasonably estimate the length or severity of this pandemic, or the extent to which the disruptions may impact the Hospital's financial position, results of operations, or cash flows in 2021 and beyond. Our conclusion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Schedule of the Hospital's Proportionate Share of the Net Pension Liability and the Schedule of Hospital Contributions (and the related notes) on pages 3 through 3e and on pages 26 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Pocahontas Community Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2018 (which are not presented herein) and expressed an unmodified opinion on those financial statements. The supplementary information on pages 1 and 30 through 38, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees
Pocahontas Community Hospital

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 27, 2021 on our consideration of Pocahontas Community Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Pocahontas Community Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Pocahontas Community Hospital's internal control over financial reporting and compliance.

Deamond, Bill, Thyer & W. P. C

Atlantic, Iowa
January 27, 2021



**Pocahontas Community Hospital
Management's Discussion and Analysis**

Our discussion and analysis of Pocahontas Community Hospital's (Hospital) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2020, 2019, and 2018. Please read it in conjunction with the Hospital's financial statements.

FINANCIAL HIGHLIGHTS

The Hospital's net position decreased in 2020 and increased in 2019 with a \$17,833 or 0.4% decrease in 2020 and a \$439,235 or 9.5% increase in 2019.

The Hospital reported an operating loss of \$277,877 in 2020 and an operating income of \$313,946 in 2019.

Non-operating revenues, net increased by \$156,252 in 2020 as a result of a \$108,191 increase in noncapital gifts, grants and bequests. The nonoperating revenues, net decreased by \$9,343 in 2019.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Hospital's financial activities.

The basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows. These statements provide information about the activities of the Hospital on a comparative basis, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Hospital's budget for the year, the Hospital's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the operations of the Hospital.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

REPORTING THE HOSPITAL'S FINANCIAL ACTIVITIES

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way which helps answer this question. These statements include all assets (restricted and unrestricted), deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position, which is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources as one way to measure the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic conditions, are also important in making this determination.

The Statements of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

FINANCIAL ANALYSIS OF THE HOSPITAL

The Hospital's net position is the difference between its assets, deferred outflows of resources, and combined liabilities and deferred inflows of resources reported in the Statement of Net Position on page 4 as you can see from Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets:			
Current assets	\$ 7,031,846	\$ 3,221,027	\$ 2,938,475
Capital assets, net	6,483,374	6,993,410	7,395,996
Other assets, net	4,241,617	557,808	516,411
Deferred outflows of resources	<u>704,144</u>	<u>857,324</u>	<u>1,026,137</u>
Total assets and deferred outflows of resources	<u>\$ 18,460,981</u>	<u>\$ 11,629,569</u>	<u>\$ 11,877,019</u>
Liabilities:			
Long-term liabilities, net	\$ 4,826,741	\$ 4,884,760	\$ 5,605,842
Other current and noncurrent liabilities	4,299,279	1,316,036	1,530,342
Deferred inflows of resources	<u>4,266,841</u>	<u>342,820</u>	<u>94,117</u>
Total liabilities and deferred inflows of resources	13,392,861	6,543,616	7,230,301
Net Position	<u>5,068,120</u>	<u>5,085,953</u>	<u>4,646,718</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 18,460,981</u>	<u>\$ 11,629,569</u>	<u>\$ 11,877,019</u>

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2020, the Hospital's net position decreased by \$17,833 or 0.4%, as shown in Table 2. This compares with the 9.5% increase in net position of \$439,235 for 2019.

Net patient service revenue decreased \$484,380 or 4.3% in 2020 compared to an increase of \$1,119,253 or 11.0% in 2019. Included in the net patient service revenue in 2019 increase was a \$781,500 change in accounting estimate (Note N).

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

Table 2: Operating Results and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues:			
Net patient service revenues	\$ 10,769,154	\$ 11,253,534	\$ 10,134,281
Other operating revenues	<u>186,099</u>	<u>171,515</u>	<u>169,382</u>
Total operating revenues	10,955,253	11,425,049	10,303,663
Operating Expenses:			
Nursing service	2,149,237	2,147,140	2,073,540
Other professional service	4,430,493	4,391,004	4,273,483
General service	901,372	1,054,635	812,632
Fiscal and administrative service	2,928,237	2,705,002	2,764,825
Provision for depreciation	<u>823,791</u>	<u>813,322</u>	<u>790,240</u>
Total operating expenses	11,233,130	11,111,103	10,714,720
Operating income (loss)	(277,877)	313,946	(411,057)
Non-Operating Revenues (Expenses):			
Noncapital gifts, grants and bequests	108,191	1,348	35,766
Investment income	32,649	27,794	10,947
Ambulance subsidy	60,000	8,779	8,606
Interest expense	(61,598)	(68,409)	(79,630)
Clinic rental, net	67,382	93,860	90,071
Gain on disposal of equipment	<u>18,000</u>	<u>5,000</u>	<u>11,955</u>
Non-operating revenues (expenses), net	224,624	68,372	77,715
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	(53,253)	382,318	(333,342)
Capital Grants and Contributions	<u>35,420</u>	<u>56,917</u>	<u>18,887</u>
Increase (Decrease) in Net Position	(17,833)	439,235	(314,455)
Net Position Beginning of Year	<u>5,085,953</u>	<u>4,646,718</u>	<u>4,961,173</u>
Net Position End of Year	<u>\$ 5,068,120</u>	<u>\$ 5,085,953</u>	<u>\$ 4,646,718</u>

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

OPERATING INCOME (LOSS)

The first component of the overall change in the Hospital's net position is its operating income (loss), the difference between net patient service and other operating revenues and the expenses incurred to perform those services. Operations changed from an operating income of \$313,946 in 2019 to an operating loss of \$277,877 in 2020.

The primary components of this decrease in operating income are:

Net patient revenue decreased \$484,380. There was a 21% decrease in acute care and swing bed gross revenue compared to last year, while operating expenses increased only \$122,027 or 1.1%. The decrease in patient revenue was in part a result of a mandated temporary suspension of elective procedures due to the global pandemic. Recent resolution of prior years cost reports under appeal resulted in a change in estimate of potential liabilities and cash settlement totaling \$781,500 which is included in the 2019 net patient revenue.

NONOPERATING REVENUES AND EXPENSES

Non-operating revenues consist primarily of contributions, interest revenue and investment earnings and a county subsidy for providing ambulance services. Noncapital gifts, grants and bequests increased \$106,843 mainly from grants to support the Hospital during the global pandemic. Interest revenue increased from \$27,794 in 2019 to \$32,649 in 2020. This increase in interest income reflects an increased cash flow and increase in rates paid on cash in interest bearing accounts.

The major non-operating expense is interest on debt. Interest expense decreased by \$6,811 in 2020.

GRANTS AND CONTRIBUTIONS

The Pocahontas Community Hospital Healthcare Foundation was formed for the purpose of raising funds for the benefit of the Hospital. The Foundation conducts an annual campaign to raise funds for specified equipment for the hospital. The Foundation is also the conduit for the funds from the annual Hospice fund drive.

The Pocahontas Community Hospital Auxiliary was formed for the purpose of supporting the hospital mission. The Auxiliary participates in activities throughout the year to raise funds. The Auxiliary funds various needs of the hospital.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating revenues and non-operating revenues and expenses as discussed earlier.

BUDGETARY HIGHLIGHTS

The official budget of the Hospital for the year ended June 30, 2020 was prepared on an accrual basis. Actual expenditures were lower than the budget by \$705,272 due to lower than expected patient services costs, related supply costs and contracted services costs.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2020, the Hospital had \$22,190 invested in non-depreciable capital assets. In 2020, the Hospital purchased new equipment costing \$305,358 including radiology equipment, laboratory equipment and software. In addition, \$8,397 was spent on building and land improvements.

Debt:

At year-end, the Hospital had \$2,969,833 in debt outstanding. The debt included a \$4,000,000 promissory note for the 2012 construction project, a \$244,500 promissory note for equipment, and a \$983,477 forgivable paycheck protection program loan. At year end, the outstanding balances on the loans were \$1,890,284, \$96,102, and \$983,447 respectively.

OTHER ECONOMIC FACTORS

The population of Pocahontas County continues to decline, and the average age of county residents continues to increase. Older patients are increasingly choosing Medicare Advantage products over traditional Medicare and younger patients are choosing High Deductible Health Plans over PPO plans, both which result in a larger balance due from patients who are often unprepared for this liability. Even though the hospital modified its financial assistance policy to offer assistance with the remaining high patient balances, charity care decreased by 26% compared to last year and bad debt increased significantly while financial assistance applications returned continues to be low in comparison to the number of applications requested by patients.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Pocahontas Community Hospital, 606 NW 7th St., Pocahontas, Iowa 50574.

POCAHONTAS COMMUNITY HOSPITAL
Statements of Net Position
June 30,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash	\$ 4,958,437	\$ 1,204,059
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$595,000 in 2020, \$472,000 in 2019)	1,410,369	1,448,533
Other receivables	8,865	12,926
Inventory	143,079	125,283
Prepaid expense	89,378	106,212
Internally designated assets	421,718	324,014
Total current assets	<u>7,031,846</u>	<u>3,221,027</u>
Designated and Restricted Assets:		
Internally designated assets	686,117	581,818
Restricted assets	3,689,697	--
	<u>4,375,814</u>	<u>581,818</u>
Less amounts required to meet current liabilities	421,718	324,014
	<u>3,954,096</u>	<u>257,804</u>
Capital Assets:		
Depreciable capital assets, net	6,461,184	6,971,220
Non-depreciable capital assets	22,190	22,190
	<u>6,483,374</u>	<u>6,993,410</u>
Other Assets	287,521	300,004
Total assets	<u>17,756,837</u>	<u>10,772,245</u>
Deferred Outflows of Resources	<u>704,144</u>	<u>857,324</u>
Total assets and deferred outflows of resources	<u>\$ 18,460,981</u>	<u>\$ 11,629,569</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2020</u>	<u>2019</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 744,666	\$ 330,064
Accounts payable	293,034	274,961
Accrued employee compensation	289,597	245,179
Other accrued expenses	123,760	170,046
Accrued interest	2,222	4,786
Estimated third-party payor settlements	<u>2,846,000</u>	<u>291,000</u>
Total current liabilities	4,299,279	1,316,036
Long-Term Liabilities:		
Long-term debt, less current maturities	2,225,167	2,008,413
Net pension liability	<u>2,601,574</u>	<u>2,876,347</u>
Total long-term liabilities	4,826,741	4,884,760
Total liabilities	9,126,020	6,200,796
Deferred Inflow of Resources	4,266,841	342,820
Net Position:		
Invested in capital assets, net of related debt	4,397,998	4,613,343
Unrestricted	<u>670,122</u>	<u>472,610</u>
Total net position	<u>5,068,120</u>	<u>5,085,953</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 18,460,981</u>	 <u>\$ 11,629,569</u>

POCAHONTAS COMMUNITY HOSPITAL
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Revenue:		
Net patient service revenue	\$ 10,769,154	\$ 11,253,534
Other revenue	<u>186,099</u>	<u>171,515</u>
Total revenue	10,955,253	11,425,049
Expenses:		
Nursing service	2,149,237	2,147,140
Other professional service	4,430,493	4,391,004
General service	901,372	1,054,635
Fiscal and administrative service	2,928,237	2,705,002
Provision for depreciation	<u>823,791</u>	<u>813,322</u>
Total expenses	<u>11,233,130</u>	<u>11,111,103</u>
Operating Income (Loss)	(277,877)	313,946
Non-Operating Revenues (Expenses):		
Noncapital gifts, grants and bequests	108,191	1,348
Investment income	32,649	27,794
Ambulance subsidy	60,000	8,779
Interest expense	(61,598)	(68,409)
Clinic rental, net	67,382	93,860
Gain on disposal of equipment	<u>18,000</u>	<u>5,000</u>
Non-operating revenues, net	<u>224,624</u>	<u>68,372</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	(53,253)	382,318
Capital Grants and Contributions	<u>35,420</u>	<u>56,917</u>
Increase (Decrease) in Net Position	(17,833)	439,235
Net Position Beginning of Year	<u>5,085,953</u>	<u>4,646,718</u>
Net Position End of Year	<u>\$ 5,068,120</u>	<u>\$ 5,085,953</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL
Statements of Cash Flows
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 13,366,379	\$ 10,850,441
Cash paid to suppliers	(6,472,531)	(6,414,133)
Cash paid to employees	(3,841,234)	(3,798,194)
Other operating revenue	186,099	171,515
Net cash provided by operating activities	<u>3,238,713</u>	<u>809,629</u>
Cash flows from non-capital financing activities:		
Gifts, grants and bequests	89,573	62
Ambulance subsidy	60,000	8,779
Proceeds from PPP loan	983,447	--
Noncapital contributions - COVID-19	<u>3,708,154</u>	<u>--</u>
Net cash provided by non-capital financing activities	4,841,174	8,841
Cash flows from capital and related financing activities:		
Capital expenditures	(256,355)	(369,146)
Proceeds from disposal of assets	18,000	5,000
Capital grants and contributions	35,420	56,917
Principal paid on long-term debt	(352,091)	(363,803)
Interest paid	<u>(64,001)</u>	<u>(67,721)</u>
Net cash used in capital and related financing activities	(619,027)	(738,753)
Cash flows from investing activities:		
Change in designated assets	(6,595)	(4,860)
Investment income	32,649	27,794
Clinic rental, net	67,382	93,860
Other asset changes	<u>(12,517)</u>	<u>(68,204)</u>
Net cash provided by investing activities	<u>80,919</u>	<u>48,590</u>
Net increase in cash and cash equivalents	7,541,779	128,307
Cash and cash equivalents beginning of year	<u>1,528,073</u>	<u>1,399,766</u>
Cash and cash equivalents end of year	<u>\$ 9,069,852</u>	<u>\$ 1,528,073</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 4,958,437	\$ 1,204,059
Cash and cash equivalents in designated assets	<u>4,111,415</u>	<u>324,014</u>
Total cash and cash equivalents	<u>\$ 9,069,852</u>	<u>\$ 1,528,073</u>

(continued next page)

POCAHONTAS COMMUNITY HOSPITAL
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$(277,877)	\$ 313,946
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	823,791	813,322
Amortization	25,000	31,667
Change in assets, liabilities, and deferred resources		
Accounts receivable	42,225	(131,093)
Inventory	(17,796)	(19,683)
Prepaid expense	16,834	(3,469)
Deferred outflows of resources	153,180	168,813
Accounts payable - trade	(39,327)	48,643
Accrued employee compensation	44,418	8,243
Other accrued expenses	(46,286)	(5,510)
Estimated third-party payor settlements	2,555,000	(272,000)
Net pension liability	(274,773)	(391,953)
Deferred inflows of resources	<u>234,324</u>	<u>248,703</u>
Total adjustments	<u>3,516,590</u>	<u>495,683</u>
Net cash provided by operating activities	<u>\$ 3,238,713</u>	<u>\$ 809,629</u>

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating income (loss) to net cash provided by operating activities:

	<u>2020</u>	<u>2019</u>
Interest imputed on loans and recorded as a gift	<u>\$ 161</u>	<u>\$ 1,286</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization includes a 25 bed critical access acute care municipal hospital with related healthcare ancillary and outpatient services. Pocahontas Community Hospital (Hospital) is organized under Chapter 392 of the Code of Iowa; accordingly, it is a political subdivision of the State of Iowa and is therefore exempt from federal and state income taxes. It is governed by a five member board of trustees, elected for four year terms. In addition, the City Treasurer is considered to be a Co-Treasurer of the Board. The Hospital, a component unit of the City of Pocahontas, has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Pocahontas Community Healthcare Foundation (Foundation) has been identified as a legally separate component unit of the Hospital. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. It was established to provide financial support to the Hospital. However, the net assets of the Foundation (Note K) are not material enough to require discrete presentation in these financial statements.

2. Basis of Presentation

The Statement of Net Position displays the Hospital's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Hospital's policy to use restricted net position first.

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less including designated assets.

6. Accounts Receivable

Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts and for contractual adjustments.

7. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

9. Designated and Restricted Assets

Internally designated assets consist primarily of funds designated by the Board of Trustees for operations, capital acquisitions and related debt payments. The Board retains control over these funds, and may, at its discretion, subsequently use them for other purposes. Restricted assets include donor restricted gifts, and funds whose use is limited by law or contractual agreements.

10. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and three to twenty years for equipment).

11. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Hospital after the measurement date but before the end of the Hospital's reporting period.

12. Compensated Absences

Hospital policies permit most employees to accumulate vacation, holiday, and sick time benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

13. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

14. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position applicable to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of stimulus money for COVID-19 related expenses, the unrecognized items not yet charged to pension expense and the unamortized portion of the net difference between projected and actual earnings on pension plan assets.

15. Statement of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

16. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

17. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

18. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service, depending on the timing of the charity determination.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries.

Medicaid - Through March of 2016 the Medicaid payment system was similar to Medicare. In April 2016 the State of Iowa Medicaid program switched to a managed care payment system, with payment rates based on previous year cost reports. The Hospital will continue to file cost reports to determine payment rates for future years.

The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2018. The Medicaid cost reports have been finalized through June 30, 2017. However, finalized cost reports are subject to re-opening by the intermediary within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

A schedule of patient service revenue and related adjustments for the years ended June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Gross patient service revenue:		
Inpatient and swing bed services	\$ 1,471,435	\$ 1,854,459
Outpatient	<u>13,740,789</u>	<u>13,281,580</u>
Total gross patient service revenue	<u>15,212,224</u>	<u>15,136,039</u>
Deductions from gross patient service revenue:		
Medicare	1,244,948	1,126,747
Medicaid	1,173,872	948,540
Provision for bad debts	433,172	265,910
Charity care	28,893	38,987
Other deductions	<u>1,562,185</u>	<u>1,502,321</u>
Total deductions from gross patient service revenue	<u>4,443,070</u>	<u>3,882,505</u>
Net patient service revenue	<u>\$ 10,769,154</u>	<u>\$ 11,253,534</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE C - DONOR RESTRICTIONS RELEASED

Restricted assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>2020</u>	<u>2019</u>
Purchase of capital items	\$ 35,420	\$ 56,917

NOTE D - DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2020 and 2019 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; common stocks; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated assets is as follows:

	<u>2020</u>	<u>2019</u>
Internally Designated Assets:		
Capital Improvements and Debt Payments:		
Cash and cash equivalents	\$ 421,718	\$ 324,014
Operations:		
Certificates of deposit	<u>264,399</u>	<u>257,804</u>
Total internally designated assets	<u>\$ 686,117</u>	<u>\$ 581,818</u>
Restricted Assets:		
COVID-19 Related Funding:		
Cash and cash equivalents	\$ 3,689,697	\$ --
Total restricted assets	<u>\$ 3,689,697</u>	<u>\$ --</u>

Interest Rate Risk - The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Hospital.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE E - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2020 and 2019, was as follows:

	<u>2020</u>	<u>2019</u>
Receivable From:		
Patients	\$ 399,835	\$ 457,605
Medicare	654,240	659,763
Medicaid	233,967	217,708
Blue Cross	370,709	353,188
Workers Compensation	57,992	21,409
Others	<u>288,626</u>	<u>210,860</u>
	2,005,369	1,920,533
Less allowances for doubtful accounts and contractual adjustments	<u>595,000</u>	<u>472,000</u>
	<u>\$ 1,410,369</u>	<u>\$ 1,448,533</u>

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2020 and 2019 were as follows:

<u>Cost</u>	<u>Balance 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2020</u>
Land Improvements	\$ 330,948	\$ 8,397	\$ --	\$ 339,345
Buildings	12,796,193	--	--	12,796,193
Fixed Equipment	728,971	--	--	728,971
Major Movable Equipment	<u>5,020,690</u>	<u>305,358</u>	<u>468,461</u>	<u>4,857,587</u>
	18,876,802	313,755	468,461	18,722,096
<u>Depreciation</u>				
Land Improvements	214,949	15,025	--	229,974
Buildings	6,940,761	473,470	--	7,414,231
Fixed Equipment	622,642	15,008	--	637,650
Major Movable Equipment	<u>4,127,230</u>	<u>320,288</u>	<u>468,461</u>	<u>3,979,057</u>
Total Depreciation	<u>11,905,582</u>	<u>823,791</u>	<u>468,461</u>	<u>12,260,912</u>
Depreciable Capital Assets, Net	<u>\$ 6,971,220</u>	<u>\$ (510,036)</u>	<u>\$ --</u>	<u>\$ 6,461,184</u>
Non-Depreciable Capital Assets:				
Land	<u>\$ 22,190</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 22,190</u>
	<u>\$ 22,190</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 22,190</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE F - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2019</u>
Land Improvements	\$ 330,948	\$ --	\$ --	\$ 330,948
Buildings	12,757,593	38,600	--	12,796,193
Fixed Equipment	728,971	--	--	728,971
Major Movable Equipment	4,722,243	391,347	92,900	5,020,690
	<u>18,539,755</u>	<u>429,947</u>	<u>92,900</u>	<u>18,876,802</u>
<u>Depreciation</u>				
Land Improvements	200,574	14,375	--	214,949
Buildings	6,458,932	481,829	--	6,940,761
Fixed Equipment	604,698	17,944	--	622,642
Major Movable Equipment	3,920,956	299,174	92,900	4,127,230
Total Depreciation	<u>11,185,160</u>	<u>813,322</u>	<u>92,900</u>	<u>11,905,582</u>
Depreciable Capital Assets, Net	<u>\$ 7,354,595</u>	<u>\$ (383,375)</u>	<u>\$ --</u>	<u>\$ 6,971,220</u>
Non-Depreciable Capital Assets:				
Land	\$ 22,190	\$ --	\$ --	\$ 22,190
Construction in Progress	<u>19,211</u>	<u>--</u>	<u>19,211</u>	<u>--</u>
	<u>\$ 41,401</u>	<u>\$ --</u>	<u>\$ 19,211</u>	<u>\$ 22,190</u>

NOTE G - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital non-current liabilities for the years ended June 30, 2020 and 2019 follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2020</u>	<u>Current Portion</u>
Long-term debt:					
Note A	\$2,184,843	\$ --	\$ 294,559	\$1,890,284	\$ 257,084
Note B	8,571	--	8,571	--	--
Note C	145,063	--	48,961	96,102	49,762
Payroll Protection Loan	<u>--</u>	<u>983,447</u>	<u>--</u>	<u>983,447</u>	<u>437,820</u>
Total long-term debt	2,338,477	983,447	352,091	2,969,833	744,666
Net pension liability	<u>2,876,347</u>	<u>--</u>	<u>274,773</u>	<u>2,601,574</u>	<u>--</u>
Total long-term liabilities	<u>\$5,214,824</u>	<u>\$ 983,447</u>	<u>\$ 626,864</u>	<u>\$5,571,407</u>	<u>\$ 744,666</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE G - NON-CURRENT LIABILITIES - Continued

	<u>Balance 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2019</u>	<u>Current Portion</u>
Long-term debt:					
Note A	\$2,449,063	\$ --	\$ 264,220	\$2,184,843	\$ 272,545
Note B	59,999	--	51,428	8,571	8,571
Note C	<u>193,218</u>	<u>--</u>	<u>48,155</u>	<u>145,063</u>	<u>48,948</u>
Total long-term debt	2,702,280	--	363,803	2,338,477	330,064
Net pension liability	<u>3,268,300</u>	<u>--</u>	<u>391,953</u>	<u>2,876,347</u>	<u>--</u>
Total long-term liabilities	<u>\$5,970,580</u>	<u>\$ --</u>	<u>\$ 755,756</u>	<u>\$5,214,824</u>	<u>\$ 330,064</u>

Note A - In April of 2012, the City of Pocahontas incurred a promissory note payable to a local bank, for up to \$4,000,000. The note was issued to pay for a renovation and expansion project. Although the debt is in the name of the City of Pocahontas, the Hospital is responsible for all loan principal and interest payments. Under terms of the note, monthly interest payments were due through May, 2013. Combined principal and interest payments are being made beginning in June, 2013 and ending in October, 2026. The interest rate on the note was 3.75%, with an adjustment based on the Wall Street Journal prime rate plus .50% after 5 years and 10 years through July, 2017. In July, 2017 it was renegotiated to a rate of 2.75% with an adjustment based on the Wall Street Journal prime rate minus 1.50% after 5 years. The note is collateralized by all assets and revenues of the Hospital.

Note B - The City of Pocahontas obtained a \$360,000 Rural Economic Development Grant through the United States Department of Agriculture. The proceeds were then loaned to the Hospital to cover the cost of specified renovation and expansion costs. The note with the City was non-interest bearing, however, interest has been imputed at a rate of 3.75%, and recorded as a donation on the Hospital's financial statements. Monthly principal payments of \$4,286 were being made to the City through August, 2019 at which time the loan was paid in full. The note was collateralized by the Hospital revenues.

Note C - In June of 2017, the City of Pocahontas obtained a \$244,500 promissory note payable to a local bank. The note was issued to pay for equipment. Although the debt is in the name of the City of Pocahontas, the Hospital is responsible for all loan principal and interest payments. Under terms of the note, combined principal and interest payments are being made beginning in June, 2017 and ending in May, 2022. The interest rate on the note is 1.65%. The note is collateralized by the Hospital revenues.

Paycheck Protection Program Loan (PPP Loan) - The Paycheck Protection Program Loan was obtained in April, 2020 from the Small Business Administration in a principal amount of \$983,447 for the purpose of protecting payroll during the COVID-19 pandemic. The loan carries an interest rate of 1% on any amount that needs to be repaid but is subject to forgiveness if certain conditions are met. The Hospital expects all proceeds to be forgiven.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE G - NON-CURRENT LIABILITIES - Continued

The annual debt service on the notes is expected to require approximately 41% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$416,100 and \$1,005,300 respectively.

Scheduled principal and interest payments on long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2021	\$ 744,666	\$ 45,818	\$ 790,484
2022	879,904	41,563	921,467
2023	295,956	33,161	329,117
2024	304,198	24,919	329,117
2025	312,670	16,447	329,117
2026 - 2027	432,439	8,342	440,781
	<u>\$ 2,969,833</u>	<u>\$ 170,250</u>	<u>\$ 3,140,083</u>

The pension liability, as further described in Note H, represents an actuarial estimate of the Hospital's share of the Iowa Public Employee Retirement System (IPERS) unfunded pension liability.

NOTE H - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE H - PENSION PLAN - Continued

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE H - PENSION PLAN - Continued

In fiscal years 2020 and 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Hospital contributed 9.44% of covered payroll for a total rate of 15.73%. Protective occupation members contributed 6.61% and 6.81% respectively of covered payroll and the Hospital contributed 9.91% and 10.21% respectively of covered payroll, for a total rate of 16.52% and 17.02% respectively.

The Hospital's contributions to IPERS for the years ended June 30, 2020 and 2019 totaled \$362,991 and \$356,172, respectively.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020 and 2019, the Hospital reported a liability of \$2,601,574 and \$2,876,347, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Hospital's proportion was 0.044927%, which was a decrease of 0.000526% from its proportion measured as of June 30, 2018.

For the years ended June 30, 2020 and 2019, the Hospital recognized pension expense of \$473,184 and \$390,938, respectively. The Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020 Deferred Outflows of Resources	2020 Deferred Inflows of Resources	2019 Deferred Outflows of Resources	2019 Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,200	\$ 95,352	\$ 16,507	\$ 67,427
Changes of assumptions	301,524	798	442,015	1,140
Net difference between projected and actual earnings on IPERS investments	--	325,327	--	88,398
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	30,429	155,667	42,630	185,855
Hospital contributions subsequent to the measurement date	362,991	--	356,172	--
	<u>\$ 704,144</u>	<u>\$ 577,144</u>	<u>\$ 857,324</u>	<u>\$ 342,820</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE H - PENSION PLAN - Continued

Deferred outflows of resources related to pensions of \$362,991 and \$356,172 represent the amount the Hospital contributed subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending June 30, 2021 and 2020, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>2020 Amount</u>	<u>2019 Amount</u>
2020	\$ --	\$ 176,031
2021	26,430	80,534
2022	(102,156)	(50,201)
2023	(87,599)	(35,171)
2024	(65,290)	(12,861)
2025	(7,376)	--
	<u>\$ (235,991)</u>	<u>\$ 158,332</u>

There were no non-employer contribution entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Rate of Inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increases (effective June 30, 2017)	3.25% to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE H - PENSION PLAN - Continued

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Hospital's proportionate share of the net pension liability - June 30, 2020	<u>\$ 4,820,294</u>	<u>\$ 2,601,574</u>	<u>\$ 740,787</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE H - PENSION PLAN - Continued

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Hospital's proportionate share of the net pension liability - June 30, 2019	\$ 5,070,824	\$ 2,876,347	\$ 1,035,790

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS - At June 30, 2020 and 2019, the Hospital reported payables to IPERS of \$37,848 and \$40,724, respectively, for legally required employer contributions and \$18,641 and \$18,870, respectively, for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

NOTE I - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include COVID-19 funding and pension plan earnings. The COVID-19 funding is to reimburse the Hospital for lost revenues, and operating and capital cost due to COVID-19 through June 30, 2021. Pension earnings represents the net difference between projected and realized earnings on IPERS' investments.

	2020	2019
CARES Act COVID-19 funding	\$ 3,689,697	\$ --
Pension earnings	577,144	342,820
	<u>\$ 4,266,841</u>	<u>\$ 342,820</u>

NOTE J - AFFILIATED ORGANIZATION

Trinity Health Systems (Trinity)

The Hospital has an operating agreement with Trinity Health Systems. Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays Trinity a monthly fee. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2020 and 2019:

	2020	2019
Fees to Trinity for personnel and services	\$ 368,524	\$ 326,080

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE K - RELATED ORGANIZATION

Pocahontas Community Healthcare Foundation (Foundation) was formed to improve the healthcare status of the people in the area surrounding Pocahontas. It has elected to do so by raising funds to help support the mission of Pocahontas Community Hospital. The Foundation provides funds to the Hospital to pay for specified operating costs and for equipment. The Hospital provides funds to the Foundation to be used in physician recruiting. Management has determined that the economic resources held by the Foundation are not significant, therefore the Foundation is not discretely presented with these financial statements.

A summary of the Foundation's assets, liabilities, net assets, and transactions with the Hospital as of and for the years ended June 30, 2020 and 2019 follows:

	<u>Unaudited</u> <u>2020</u>	<u>Unaudited</u> <u>2019</u>
Assets	\$ 75,102	\$ 60,320
Net Assets	\$ 75,102	\$ 60,320
Payments to Hospital	\$ 34,614	\$ 56,917

NOTE L - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The Hospital operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The Hospital currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2020, the Hospital contributed \$566,002 and plan members eligible for benefits contributed \$136,766 to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits: Individuals who are employed by Pocahontas Community Hospital and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	0
Active employees	<u>53</u>
Total	<u>53</u>

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial. No liability has been recorded.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE M - COMMITMENTS AND CONTINGENCIES

Rental Obligation

The Hospital has agreed to rent building space from the City of Pocahontas for approximately \$15,000 per year. The rented area is currently used for hospital registration and specialty clinic space.

Other Assets

The other assets represent funds advanced under agreements with healthcare professionals now practicing in the community. The agreements include commitments by the healthcare professionals to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the term of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Pocahontas Community Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

CARES Act - Provider Relief Funds

The Hospital has recognized Provider Relief Funds revenue in these financial statements totaling \$18,457 for reimbursement of expenses due to COVID-19 based on guidance as of the date of the report. Guidance could change when the final rules are issued, which could change the amount of revenue currently recognized.

Subsequent Events

The Hospital has evaluated all subsequent events through January 27, 2021, the date the financial statements were available to be issued.

NOTE N - CHANGE IN ACCOUNTING ESTIMATE

As a result of recent decisions made by the Medicare fiscal intermediary related to the allowability of home office costs, the Hospital received additional reimbursement on the settlement of its cost reports from 2010 to 2012. As a result, the Hospital revised its estimate of potential liabilities owed to third party payors in 2019. The result of this change in estimate (a \$781,500 decrease in liabilities and increase in net revenue) has been reported as part of net patient service revenue on the statement of revenues, expenses and changes in net position.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2020 and 2019

NOTE O - MATTERS AFFECTING CURRENT AND SUBSEQUENT YEARS OPERATIONS

On March 11, 2020 the World Health Organization declared the Novel Coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of March 16, 2020 the Hospital limited operations per recommendations of the Governor and Department of Public Health and remained limited through June 1, 2020 when the Hospital reopened with modification to operations. The Hospital cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the Hospital's financial position, result of activities or cash flows in 2021 and beyond.

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REQUIRED SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2020

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget which is filed with the City Clerk to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2020.

	<u>Total Per Hospital Statements</u>	<u>Budget</u>	<u>Amount Under Budget</u>
Expenses	\$ <u>11,294,728</u>	\$ <u>12,000,000</u>	\$ <u>705,272</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of the Hospital's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Six Years

Required Supplementary Information

	<u>2020</u>	<u>2019</u>
Hospital's proportion of the net pension liability	.044927%	.045453%
Hospital's proportionate share of the net pension liability	\$ 2,602,000	\$ 2,876,000
Hospital's covered payroll	\$ 3,749,000	\$ 3,726,000
Hospital's proportionate share of the net pension liability as a percentage of its covered payroll	69.41%	77.19%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%

Note - In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year. Amounts reported are rounded.

See accompanying independent auditor's report.

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
.049064%	.047853%	.047853%	.048233%
\$ 3,268,000	\$ 3,012,000	\$ 2,364,000	\$ 1,968,000
\$ 3,930,000	\$ 3,679,000	\$ 3,453,000	\$ 3,310,000
83.16%	81.87%	68.46%	59.46%
82.21%	81.82%	85.19%	87.61%

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Hospital Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years

Required Supplementary Information

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ 363,000	\$ 356,000	\$ 336,000	\$ 354,000
Contributions in relation to the statutorily required contribution	<u>(363,000)</u>	<u>(356,000)</u>	<u>(336,000)</u>	<u>(354,000)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Hospital's covered payroll	\$ 3,835,000	\$ 3,749,000	\$ 3,726,000	\$ 3,930,000
Contributions as a percentage of covered payroll	9.47%	9.50%	9.02%	9.01%

Note - Amounts reported are rounded.

See accompanying independent auditor's report.

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 331,000	\$ 310,200	\$ 296,100	\$ 280,400	\$ 254,500	\$ 202,500
<u>(331,000)</u>	<u>(310,200)</u>	<u>(296,100)</u>	<u>(280,400)</u>	<u>(254,500)</u>	<u>(202,500)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 3,679,000	\$ 3,453,000	\$ 3,310,000	\$ 3,203,000	\$ 3,098,000	\$ 2,867,000
9.00%	8.98%	8.95%	8.75%	8.21%	7.06%

POCAHONTAS COMMUNITY HOSPITAL
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

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SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,171,889	58.4%	\$ 1,137,340	59.2%
31 - 90	307,756	15.4	393,087	20.5
91 - 150	171,101	8.5	180,993	9.4
151 - 270	173,463	8.7	105,042	5.5
271 and over	181,160	9.0	104,071	5.4
	<u>2,005,369</u>	<u>100.0%</u>	<u>1,920,533</u>	<u>100.0%</u>
Allowance for doubtful accounts	220,000		170,000	
Allowance for contractual adjustments	<u>375,000</u>		<u>302,000</u>	
	<u>\$ 1,410,369</u>		<u>\$ 1,448,533</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Balance, beginning	\$ 170,000	\$ 181,000
Provision for bad debts	433,172	265,910
Recoveries of accounts previously written off	<u>623,720</u>	<u>507,066</u>
	1,226,892	953,976
Accounts written off	<u>1,006,892</u>	<u>783,976</u>
Balance, ending	<u>\$ 220,000</u>	<u>\$ 170,000</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Inventory/Prepaid Expense
June 30,

	<u>2020</u>	<u>2019</u>
<u>Inventory</u>		
Medical and surgical	\$ 27,840	\$ 17,683
Pharmacy	63,447	80,079
Laboratory and radiology	<u>51,792</u>	<u>27,521</u>
	<u>\$ 143,079</u>	<u>\$ 125,283</u>
 <u>Prepaid Expense</u>		
Insurance	\$ 14,673	\$ 23,978
Service contracts	<u>74,705</u>	<u>82,234</u>
	<u>\$ 89,378</u>	<u>\$ 106,212</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Service Revenue
Year ended June 30,

	2020		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing Bed</u>
Daily Patient Services:			
Medical and surgical	\$ 323,511	\$ --	\$ --
Swing bed	--	--	214,845
	<u>323,511</u>	<u>--</u>	<u>214,845</u>
Other Nursing Services:			
Operating and recovery rooms	9,720	782,417	--
Emergency service	30,196	1,772,764	--
Central services and supply	25,669	156,631	11,889
Observation	--	102,110	--
	<u>65,585</u>	<u>2,813,922</u>	<u>11,889</u>
Other Professional Services:			
Emergency room physician	--	567,055	--
Anesthesiology	900	206,488	--
Laboratory	156,168	2,736,790	42,571
Blood administration	600	36,400	--
Radiology	55,131	3,121,214	11,902
Pharmacy	201,679	1,329,266	103,320
Chemotherapy	400	80,214	--
Electrocardiology	4,320	167,820	1,200
Physical therapy	14,270	586,489	64,210
Speech therapy	600	10,316	4,400
Respiratory therapy	59,895	241,365	22,430
Occupational therapy	10,140	282,275	47,351
Cardiac rehabilitation	--	183,578	--
Pulmonary rehab	--	16,668	--
Ambulance services	52,018	819,060	--
Industrial Health	--	4,895	--
Hospice	2,100	--	--
Clinic services	--	536,974	--
	<u>558,221</u>	<u>10,926,867</u>	<u>297,384</u>
	<u>\$ 947,317</u>	<u>\$ 13,740,789</u>	<u>\$ 524,118</u>

See Independent Auditor's Report.

<u>2020</u>	<u>2019</u>
<u>Total</u>	<u>Total</u>
\$ 323,511	\$ 338,074
<u>214,845</u>	<u>248,475</u>
538,356	586,549
792,137	1,013,771
1,802,960	1,782,924
194,189	204,115
<u>102,110</u>	<u>83,267</u>
2,891,396	3,084,077
567,055	575,085
207,388	270,429
2,935,529	2,967,621
37,000	21,420
3,188,247	2,950,978
1,634,265	1,745,227
80,614	119,605
173,340	150,850
664,969	649,486
15,316	11,684
323,690	429,386
339,766	325,947
183,578	231,925
16,668	59,461
871,078	733,410
4,895	5,156
2,100	4,550
<u>536,974</u>	<u>213,193</u>
<u>11,782,472</u>	<u>11,465,413</u>
\$ <u>15,212,224</u>	\$ <u>15,136,039</u>

POCAHONTAS COMMUNITY HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	<u>2020</u>	<u>2019</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 15,212,224	\$ 15,136,039
Contractual adjustments	(3,970,225)	(4,352,857)
Change in accounting estimate (Note M)	--	781,500
Provision for bad debts	(433,172)	(265,910)
Charity care	(28,893)	(38,987)
Employee discounts	(10,780)	(6,251)
	<u>\$ 10,769,154</u>	<u>\$ 11,253,534</u>
 <u>Other Revenue</u>		
Meals sold	\$ 82,584	\$ 85,569
Histories	1,024	506
Ambulance support	14,000	18,000
Rent income	30,424	31,943
Miscellaneous	<u>58,067</u>	<u>35,497</u>
	<u>\$ 186,099</u>	<u>\$ 171,515</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Expenses
Year ended June 30,

	2020		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing administration	\$ --	\$ --	\$ --
Medical and surgical	1,115,956	--	276,476
	<u>1,115,956</u>	<u>--</u>	<u>276,476</u>
<u>Other Nursing Services</u>			
Operating and recovery rooms	251,405	--	105,193
Emergency service	275,629	--	59,895
Central services and supply	40,509	--	24,174
	<u>567,543</u>	<u>--</u>	<u>189,262</u>
<u>Other Professional Services</u>			
Emergency room physicians	--	--	--
Anesthesiology	--	--	997
Laboratory	322,768	--	312,480
Blood administration	--	--	25,159
Radiology	273,035	--	311,060
Pharmacy	--	--	404,278
Chemotherapy	6,523	--	--
Electrocardiology	--	--	3,000
Sleep studies	--	--	--
Physical therapy	36,837	--	8,917
Speech therapy	--	--	--
Respiratory therapy	113,634	--	25,034
Occupational therapy	--	--	354
Cardiac rehabilitation	132,743	--	14,769
Pulmonary rehab	13,564	--	84
Ambulance services	102,489	--	74,483
Industrial health	7,308	--	1,159
Hospice	--	--	3
Medical records	96,258	--	41,295
Pain clinic	19,941	--	63,711
Wound care	45,858	--	--
	<u>1,170,958</u>	<u>--</u>	<u>1,286,783</u>
<u>General Services</u>			
Dietary	163,654	--	109,742
Plant operations	178,084	--	322,941
Housekeeping	78,160	--	8,882
Laundry and linen	--	--	29,429
	<u>419,898</u>	<u>--</u>	<u>470,994</u>
<u>Fiscal and Administrative Services</u>	611,297	1,391,976	513,416
<u>Provision for Depreciation</u>	--	--	823,791
Total all departments	<u>\$ 3,885,652</u>	<u>\$ 1,391,976</u>	<u>\$ 3,560,722</u>

See Independent Auditor's Report.

2020					
Professional Fees	Total		2019 Total		
\$ --	\$ --		\$ 9,966		
--	1,392,432		1,374,501		
--	1,392,432		1,384,467		
--	356,598		393,159		
--	335,524		297,662		
--	64,683		71,852		
--	756,805		762,673		
1,107,180	1,107,180		1,134,847		
82,152	83,149		104,077		
22,195	657,443		677,148		
--	25,159		35,257		
73,778	657,873		605,499		
107,740	512,018		534,151		
--	6,523		11,327		
170	3,170		24,278		
39,500	39,500		41,525		
332,409	378,163		370,081		
9,190	9,190		7,691		
--	138,668		105,449		
186,871	187,225		195,593		
--	147,512		151,806		
--	13,648		33,007		
--	176,972		130,004		
--	8,467		10,659		
--	3		165		
--	137,553		129,406		
--	83,652		63,073		
11,567	57,425		25,961		
1,972,752	4,430,493		4,391,004		
10,480	283,876		278,999		
--	501,025		655,222		
--	87,042		86,294		
--	29,429		34,120		
10,480	901,372		1,054,635		
411,548	2,928,237		2,705,002		
--	823,791		813,322		
\$ 2,394,780	\$ 11,233,130		\$ 11,111,103		

POCAHONTAS COMMUNITY HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Fiscal and Administrative:		
Salaries and wages	\$ 611,297	\$ 586,564
Professional fees	411,548	364,889
Recruitment fees	25,200	31,867
Dues	9,970	20,454
Telephone	11,356	9,504
Supplies and other expense	<u>378,045</u>	<u>366,634</u>
	1,447,416	1,379,912
Employee Welfare:		
Payroll taxes and benefits	756,194	667,756
Group health insurance	582,196	553,550
Other employee benefits	<u>53,586</u>	<u>17,401</u>
	1,391,976	1,238,707
Insurance:		
Liability and property insurance	<u>88,845</u>	<u>86,383</u>
	<u>\$ 2,928,237</u>	<u>\$ 2,705,002</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Acute Care:					
Admissions	123	162	153	124	135
Discharges	122	163	154	123	137
Patient Days	390	492	488	395	395
Average Length of Stay	3.2	3.0	3.2	3.2	2.9
Average Occupied Beds	1.1	1.3	1.3	1.1	1.1
Swing Bed:					
Admissions	56	79	68	75	43
Discharges	58	78	69	73	43
SNF Days	447	641	492	531	352
ICF Days	27	20	15	75	15
Combined Average Occupied Beds	2.4	3.2	2.7	2.7	2.1
Outpatient Occasions of Service	19,554	20,130	19,811	22,979	21,742

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statements of Net Position
June 30,

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash	\$ 4,958,437	\$ 1,204,059
Receivables, net	1,419,234	1,461,459
Inventory	143,079	125,283
Prepaid expense	89,378	106,212
Internally designated assets	<u>421,718</u>	<u>324,014</u>
Total current assets	7,031,846	3,221,027
Other Assets:		
Designated and restricted assets, net	3,954,096	257,804
Capital assets, net	6,483,374	6,993,410
Other assets	<u>287,521</u>	<u>300,004</u>
Total assets	17,756,837	10,772,245
Deferred Outflows of Resources - Pension	<u>704,144</u>	<u>857,324</u>
Total assets and deferred outflows of resources	<u>\$ 18,460,981</u>	<u>\$ 11,629,569</u>
Current Liabilities:		
Current maturities	\$ 744,666	\$ 330,064
Accounts payable	293,034	274,961
Accrued expenses	413,357	415,225
Accrued interest	2,222	4,786
Estimated third party payor settlements	<u>2,846,000</u>	<u>291,000</u>
Total current liabilities	4,299,279	1,316,036
Long-Term Liabilities:		
Long-term debt, net	2,225,167	2,008,413
Net pension liability	<u>2,601,574</u>	<u>2,876,347</u>
Total liabilities	9,126,020	6,200,796
Deferred Inflow of Resources	4,266,841	342,820
Net Position	<u>5,068,120</u>	<u>5,085,953</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 18,460,981</u>	<u>\$ 11,629,569</u>

See Independent Auditor's Report.

<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 1,164,713	\$ 1,561,389	\$ 1,006,059
1,330,366	1,417,620	1,197,392
105,600	110,146	105,348
102,743	107,599	142,798
<u>235,053</u>	<u>176,413</u>	<u>253,310</u>
2,938,475	3,373,167	2,704,907
252,944	250,000	--
7,395,996	8,001,694	8,387,807
<u>263,467</u>	<u>174,196</u>	<u>190,493</u>
10,850,882	11,799,057	11,283,207
<u>1,026,137</u>	<u>894,599</u>	<u>436,740</u>
<u>\$ 11,877,019</u>	<u>\$ 12,693,656</u>	<u>\$ 11,719,947</u>
\$ 364,738	\$ 350,845	\$ 293,919
184,728	169,743	200,864
412,492	457,497	474,613
5,384	8,088	7,669
<u>563,000</u>	<u>957,000</u>	<u>299,000</u>
1,530,342	1,943,173	1,276,065
2,337,542	2,701,140	2,810,196
<u>3,268,300</u>	<u>3,011,558</u>	<u>2,364,171</u>
7,136,184	7,655,871	6,450,432
94,117	76,612	251,144
<u>4,646,718</u>	<u>4,961,173</u>	<u>5,018,371</u>
<u>\$ 11,877,019</u>	<u>\$ 12,693,656</u>	<u>\$ 11,719,947</u>

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statements of Revenues and Expenses
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Patient Service Revenue	\$ 15,212,224	\$ 15,136,039
Adjustments to Patient Service Revenue	<u>(4,443,070)</u>	<u>(3,882,505)</u>
Net Patient Service Revenue	10,769,154	11,253,534
Other Revenue	<u>186,099</u>	<u>171,515</u>
Total Revenue	10,955,253	11,425,049
Expenses	<u>11,233,130</u>	<u>11,111,103</u>
Operating Income (Loss)	(277,877)	313,946
Non-Operating Revenues (Expenses), Net	<u>224,624</u>	<u>68,372</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	(53,253)	382,318
Capital Grants and Contributions	<u>35,420</u>	<u>56,917</u>
Increase (Decrease) in Net Position	<u><u>\$ (17,833)</u></u>	<u><u>\$ 439,235</u></u>

* Method of accumulating Change in Accounting Estimate changed to be comparative.

See Independent Auditor's Report.

<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 13,822,808	\$ 13,452,978	\$ 12,320,683
<u>(3,688,527)</u>	<u>(2,944,712)*</u>	<u>(2,513,894)</u>
10,134,281	10,508,266	9,806,789
<u>169,382</u>	<u>153,348</u>	<u>154,195</u>
10,303,663	10,661,614	9,960,984
<u>10,714,720</u>	<u>10,695,201</u>	<u>10,231,764</u>
(411,057)	(33,587)	(270,780)
<u>77,715</u>	<u>(54,714)</u>	<u>147,221</u>
(333,342)	(88,301)	(123,559)
<u>18,887</u>	<u>31,103</u>	<u>14,700</u>
<u><u>\$ (314,455)</u></u>	<u><u>\$ (57,198)</u></u>	<u><u>\$ (108,859)</u></u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees of
Pocahontas Community Hospital
Pocahontas, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Pocahontas Community Hospital as of and for the years ended June 30, 2020 and 2019 and the related notes to financial statements, and have issued our report thereon dated January 27, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pocahontas Community Hospital's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pocahontas Community Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of Pocahontas Community Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 20-I-A.

To the Board of Trustees of
Pocahontas Community Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pocahontas Community Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pocahontas Community Hospital's Responses to Findings

Pocahontas Community Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Pocahontas Community Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Hospital's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Donald Bell, CPA - C. P. C.

Atlantic, Iowa
January 27, 2021

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings and Responses
Year ended June 30, 2020

PART I: INTERNAL CONTROL DEFICIENCIES

20-I-A Segregation of Duties:

Criteria: Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Hospital's financial statements.

Condition: A limited number of people have the primary responsibility for most of the accounting and financial reporting duties.

Cause: The Hospital has a limited number of employees which does not allow procedures to be established to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect: Inadequate segregation of duties could adversely affect the Hospital's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings and Responses - Continued
Year ended June 30, 2020

PART II: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

20-II-A Certified Budget: As a component unit of the City of Pocahontas, the Hospital is required to annually (in February) provide a copy of its summary budget to the City, to allow its inclusion in the official City budget documents. The Hospital complied with its requirement and provided a copy of its budget to the City by February, 2019.

20-II-B Questionable Expenditure: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expenditure was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
The CO-OP Bar Grill	Employee Recognition Dinner	\$ 1,923

According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation: We recommend that the Board continue to document the public purpose of expenditure for employee recognition dinners before authorization is given.

Response: The recognition dinner expenditure is considered part of the employee benefit package and the Board feels they meet the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

20-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings and Responses - Continued
Year ended June 30, 2020

PART II: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

20-II-D Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Wood's Supermarket Kim Wood is a Board member and a part owner of the store	Grocery items	\$ <u>4,997</u>
Ries Water Service Tom Ries is a City Council member and the owner of the company	Bottled water	\$ <u>2,498</u>

The transactions with Wood's Supermarket equal or exceed \$2,500 (Code Section 362.5(3)(k)), however, purchases from local businesses are necessary for the operation of the Hospital in Pocahontas, Iowa. In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Tom Ries (City Council Member) do not appear to represent conflicts of interest since his store is the only store in town that carries certain supplies and total transactions were less than \$2,500 during the fiscal year. The Board considered and approved the purchase of supplies from these local merchants.

Recommendation: The Board should continue to monitor purchases from board member and City Council member owned businesses and assure that conflicts of interest are limited to required transactions. Reasons for and approval of such transactions should be documented.

Response: The Board will continue to monitor and document reasons for and approval of transactions that appear to represent any conflict of interest.

Conclusion: Response accepted.

20-II-E Restricted Donor Activity: No transactions were noted between the Hospital, Hospital officials, Hospital employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

20-II-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

20-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings and Responses - Continued
Year ended June 30, 2020

PART II: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

20-II-H Economic Development: During the year ended June 30, 2020, the Hospital paid \$500 to the Pocahontas County Economic Development Commission. The Hospital Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

* * *